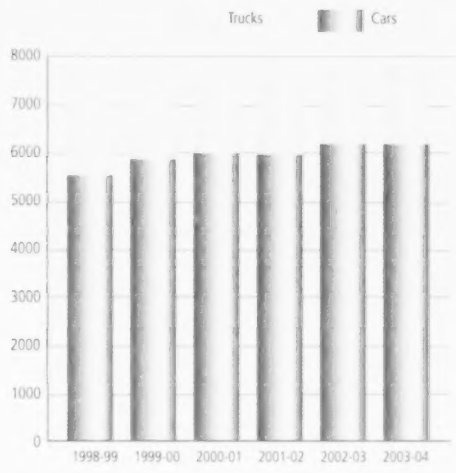
Highway 104 Western Alignment Corporation

Annual Report 2003-2004

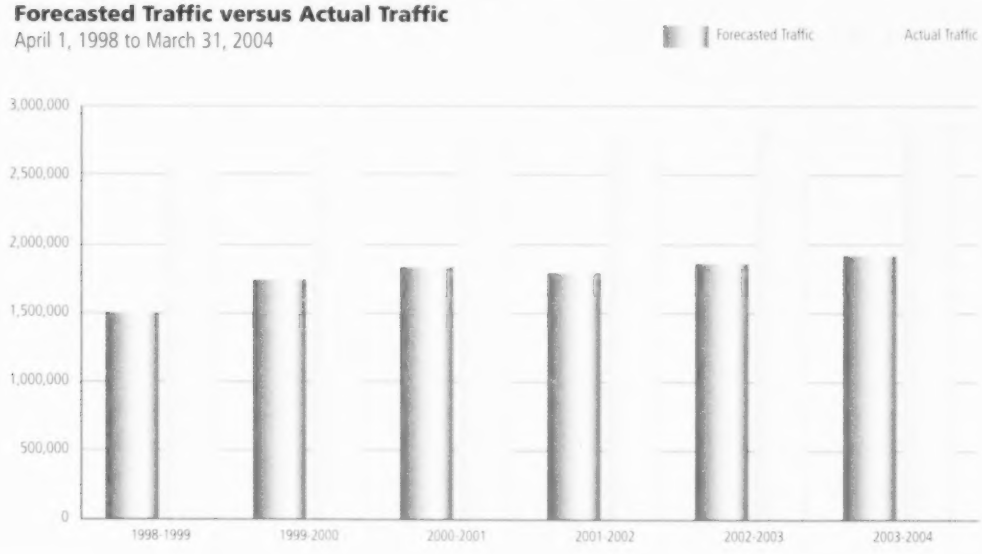
Facts at a Glance

- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lanes
- Wide median: 22.6 metres
- 110 km/hr
- Five full interchanges
- Six major bridges
- Five large tunnels under the road for access to land parcels, snowmobile trails and wildlife passages
- 18 kilometres of access roads
- Constructed by Atlantic Highways Corporation, a subsidiary of Canadian Highways International Corporation, in 20 months. (A national industry publication called Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)
- The 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation
- Opened November 15, 1997
- Annual average daily traffic for 2003-04: cars - 6196; trucks - 1700

Annual Average Daily Traffic



Forecasted Traffic versus Actual Traffic
April 1, 1998 to March 31, 2004



Letters to Stake Holders

President's Letter

The Highway 104 Western Alignment Corporation continues to be committed to its current mandate to manage toll revenue collection, to maintain the schedule to repay investors, and to fund annual and long term maintenance of the facility. All of which ensures the users of the Cobequid Pass will have a quality driving experience today and in the future. The Corporation is ably assisted in its mandate by Atlantic Highways Management Corporation who operate the toll plaza, by CIT Structured Finance who represent the bondholders, by McCormick Rankin who provide independent maintenance engineering advice, and by the Department of Transportation and Public Works who supply the on-going annual upkeep of the highway and the management of the long-term major maintenance. The Corporation also relies on the legal counsel of McInnis Cooper and financial advice of Grant Thornton LLP.

In this fiscal year, the Corporation welcomed two new employees to its management team. Ms. Eva Hislop, CMA became the new Controller of the Corporation in August 2003, and Mr. Don Stonehouse, P.Eng. assumed the General Manager's duties in January 2004.

In accordance with the terms and conditions of the financial agreements between the private investors in the highway and the Corporation, the tolls on the Cobequid Pass were raised on January 1, 2004. Automobiles and similar vehicles now pay a toll of $4.00, while trucks pay $3.00 per axle, to a maximum of six axles. The use of E-Pass does provide a reduced toll for all vehicles. In 2003-04, 16 percent of automobile users and 83 percent of truck users of the Cobequid Pass took advantage of E-Pass savings.

The financing structure of the Cobequid Pass provides a unique opportunity for the Corporation to ensure the roadway is maintained as a first class facility throughout its 30 year life. Toll revenues go directly to the annual operating and major maintenance of the highway. This year the Corporation was able to micro-surface 12 kilometres of the east bound lanes from the Wentworth-Collingwood Road interchange to the Toll Plaza, and to rout and seal the centre-line joint on the eastbound approach to the Toll Plaza.

In closing, the finances of the Corporation continue to be in good shape and the roadway is being maintained in top condition. There are, however, challenges ahead that the Corporation will be taking on, and with the assistance of our partners, the Corporation will endeavor to ensure a continued quality driving experience that has become synonymous with the Cobequid Pass.

Lee Rankin
President

General Manager's Letter

In the day-to-day administration of the numerous legal and financial agreements that permitted the Cobequid Pass to be constructed with minimal government funding and to be maintained solely from revenues without government contributions, one must not lose sight of the purpose of the highway. The Cobequid Pass is a critical link in Nova Scotia's highway system, providing a portion of the highway connection to the rest of North America. Through comments, suggestions and words of appreciation, we are reminded on a regular basis of the importance of this highway to the traveling public. The Corporation strives to ensure the operation of the Cobequid Pass is conducted in a competent and careful manner.

In fiscal 2003-04 the Corporation initiated two significant reviews regarding its operation. One consultant study evaluated the tolling system. Although currently stable, the tolling system has been in operation since 1997. In terms of the software, it is dated and has inherent inefficiencies. The software also has difficulty in adapting to new, replacement hardware. With the demise of the suppliers of the original software, the on-going maintenance of the tolling system has become more difficult. The review concluded that the Corporation should take steps to support and enhance the current system and to commence an investigation of a replacement system. The first step in this process was to secure the source code of the current system from its escrow account. Further activities will be undertaken in the coming fiscal year on a priority basis.

The Corporation also contracted Grant Thornton LLP to examine the financial implications of paying down a portion of the debt of the Corporation. The prepayment of the debt could lead to an earlier removal of the tolls on the highway. Grant Thornton provided a number of observations that the Corporation will be reviewing in the next fiscal year to determine the most favorable course of action.

The Cobequid Pass exhibited a total growth in traffic of 1.28% over the previous fiscal year, with automobile traffic relatively flat at a growth rate of 0.22%, while truck traffic grew by 5.34%. In comparison to the original forecasted volumes for 2003-04, actual automobile traffic was 72% ahead of forecast, while truck traffic was 3% ahead. This compares to 78% and 0% respectively in 2002-03. On the revenue side, toll revenues increased by 6.15%, reflecting in part the toll increase on January 1, 2004.

This report provides a broad overview of the history and administrative structure of the Corporation, and the traffic and financial operation of the Cobequid Pass for fiscal 2003-04. I would commend its reading. In regards to the financial statements, the accompanying notes are very important in explaining the financial details.

If you have any questions or comments regarding the Cobequid Pass, we would be pleased to hear from you. The contact information is printed on the back of this report.

Don L. Stonehouse, P.Eng.
General Manager

Administration and Accountability

Background

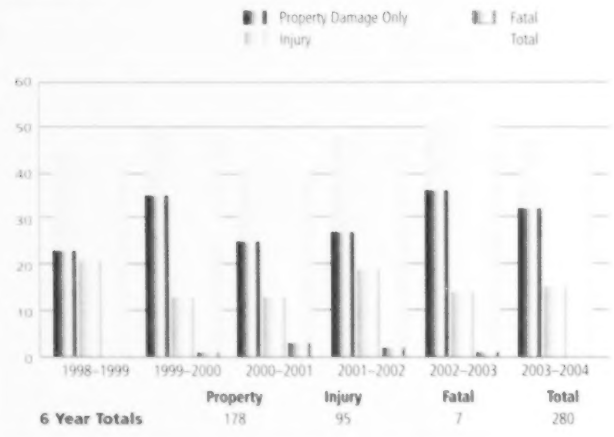
Creating the Highway 104 Western Alignment Corporation was key to creating Cobequid Pass. Unique to infrastructure financing in Canada, the Corporation is neither a Crown corporation, nor an agent of the Crown. Its sole purpose, by statute, is to manage the finance, design, construction, operation and maintenance of Cobequid Pass.

The Corporation's mandate is to manage toll revenues until the year 2026, and maintain the schedule set to repay investors and fund annual and long term maintenance. The Corporation's sole source of revenue is tolls.

Because the funding for Cobequid Pass flows only through the 104 Corporation, the highway's debt does not belong to the Province of Nova Scotia, nor does the Province guarantee the debt. However, because public monies are involved in the highway's financing, and because the 104 Corporation is wholly owned by the Crown, its annual operations may be scrutinized by the Auditor General.

Operating independent of government, the 104 Corporation is the entity that permitted non-recourse financing, meaning private investors can lay no claim on government assets or money in the unlikely event toll revenue should fail to provide a return on investment.

Cobequid Pass Collision Record 1998–2004



	Property	Injury	Fatal	Total
6 Year Totals	178	95	7	280

Data supplied by the Nova Scotia Department of Transportation and Public Works

Administration

One of the Corporation's primary administrative responsibilities is ensuring toll revenue is collected and distributed according to the agreements signed by the Government of Nova Scotia, Atlantic Highways Corporation and CIT Structured Finance, formerly Newcourt Credit Group, the Bondholders' representative.

This responsibility includes maintaining budget control, issuing payment directives, and ensuring that parties to the agreements are meeting obligations in a timely fashion. It also means keeping communication lines open and direct between all parties.

The administration of the Highway 104 Western Alignment Corporation is led by its General Manager, Don Stonehouse, P.Eng. and by the Controller, Eva Hislop, CMA. Patricia Belleza provides administrative and accounting support.

Accountability

The financial activities of the Corporation are carefully scrutinized by its auditors Grant Thornton LLP, and by CIT Structured Finance and the Department of Transportation and Public Works.

Detailed reports of the highway's operation are given to the Deputy Minister of the Department of Transportation and Public Works on a monthly basis, and he in turn informs the Minister of Transportation and Public Works as the owner. The Minister is well equipped to respond to questions from the public, Cabinet, Members of the Legislative Assembly, and the media, as is the Corporation's General Manager.

The Highway 104 Western Alignment Corporation is represented on the Department of Transportation and Public Works' Steering Committee, and meetings are scheduled regularly with Atlantic Highways Management Corporation executives.

The Auditor General of Nova Scotia has the right to review the 104 Corporation's activities, as it did in 1996 and 2002.

Maintenance

With a budget of $830,600 in fiscal 2003-04, the Department of Transportation and Public Works provides maintenance on Cobequid Pass under the terms of the Annual Maintenance Agreement. The majority of this work consists of snow and ice removal during the winter months. The Department of Transportation and Public Works also performs annual line painting, guardrail replacement and repair, litter removal, and other duties to ensure the highway is maintained at a high standard.

The Corporation funded nearly $500,000 in Major Maintenance during the past fiscal year. The majority of this expenditure was for 12 kilometres of micro-surfacing, design and construction. Lane controllers at the toll booths were also replaced. These works were funded through the Corporation's Major Maintenance Reserve Fund and involved no public monies.

Atlantic Highways Management Corporation

The toll operations are run by Atlantic Highways Management Corporation (AHMC), a subsidiary of the contractor, Atlantic Highways Corporation (AHC). Both are owned by Aecon. AHC guaranteed the highway for three years, an unprecedented warranty period, and all deficiencies were repaired at their expense.

The electronic tolling system managed by AHMC links vehicles carrying a transponder to a computerized account and automatically deducts the toll. Supplied by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities. Fourteen hundred and fifty-nine transponder units were sold this fiscal year.

AHMC employs 38 people at the toll plaza, most from Cumberland and Colchester Counties. Aecon is an alliance of the project management and engineering firms Ambro Construction Ltd. and BFC Construction Corporation.

How Cobequid Pass and its Ongoing Maintenance are Funded

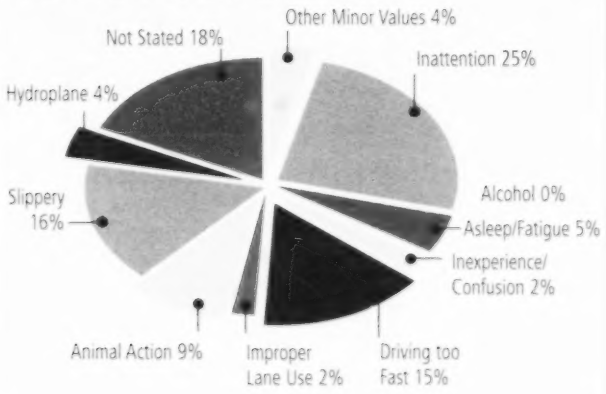
Cobequid Pass is the only highway in Nova Scotia that required a relatively small one-time initial investment from governments for its construction. It is also the only highway that covers the cost of its annual and long-term maintenance over a 30-year period.

The terms of the agreement between the partners detail how toll revenue is used to repay investors, cover toll operations, and fund long and short term maintenance.

How the agreement works

Funding	Amount	Provided by
Senior Bond Issue	$51.0 million	CIT Structured Finance
Junior Bond Issue	$9.9 million	CIT Structured Finance
Subordinate Notes	$5.5 million	Province of Nova Scotia
Equity	$1	Province of Nova Scotia
Interest Earnings		From all investments and bank accounts
Federal Funding	$27.5 million	Government of Canada
Provincial Funding	$27.5 million	Government of Nova Scotia

Primary Contributing Collision Factors 1 Year Total 2003–2004



Data supplied by the Nova Scotia Department of Transportation and Public Works

Operations

The Project Account was established to:

- Pay the Highway 104 Western Alignment Corporation's ongoing administrative costs
- Pay operating and maintenance costs for Cobequid Pass.

Every month the 104 Corporation transfers any cash balance from the Project Account into the Capital Reserve Account. By agreement, the Project Account keeps only a balance equal to two months of its operating/administrative budget.

The sources of cash for the Project Account are:

- Toll revenue
- Any cash not used during construction
- Interest income

The Capital Reserve account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior bond debt and junior bond debt as per scheduled quarterly repayment dates
- Meet the minimum funding requirements of the Debt Service Reserve Account if required. (The Debt Service Reserve Account must be funded at one full year of Senior Debt Payments, according to the amortization schedule, at any given time.)
- Meet the funding requirements of the Major Maintenance Reserve Fund
- Pre-pay the debt

The sources of cash for the Capital Reserve account are:

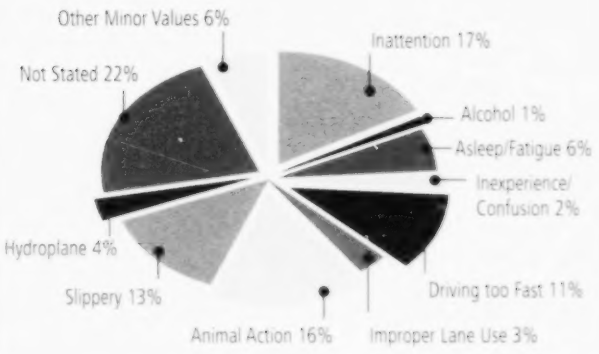
- The Project Account: All monies in excess of two months operating and administrative budget are deposited to the Capital Reserve Account
- All excess funds in the Debt Service Reserve Account (DSRA). The DSRA, on any given bond principal and interest payment date, can only equal the scheduled Senior Bond repayments for the upcoming 12 month period.

Senior Debt Service Coverage Ratio (DSCR)

The Senior Debt Service Coverage Ratio must be 1.2:1 at any time during the first 36 months after December 31, 1997, the Date of Acceptance, and 1.3:1 at any time after the 36th month after the Date of Acceptance.

If the Senior Debt Service Ratio is larger than 1.3:1 but less than 1.6:1 then all funds in excess of expenditures and bond repayment are accumulated in the Capital Reserve Fund where they are placed in permitted investments. Since project start up the Senior Debt Service Ratio has never been less than 1.6:1.

Primary Contributing Collision Factors
6 Year Total 1998–2004



Data supplied by the Nova Scotia Department of Transportation and Public Works

Major Maintenance Reserve Fund (MMRF)

The Major Maintenance Reserve Fund ensures that there are funds available to pay for all major maintenance costs such as repaving.

The first contribution to the MMRF fund came from the Subordinate Notes issued in November 1997. This was a total amount of $500,000. The Financing Agreements require that specific quarterly contributions be made to the MMRF from the Capital Reserve Fund and these contributions are adjusted annually based on maintenance requirements.

Cash Flow Diagram

Junior Debt Service processes have been omitted for clarity

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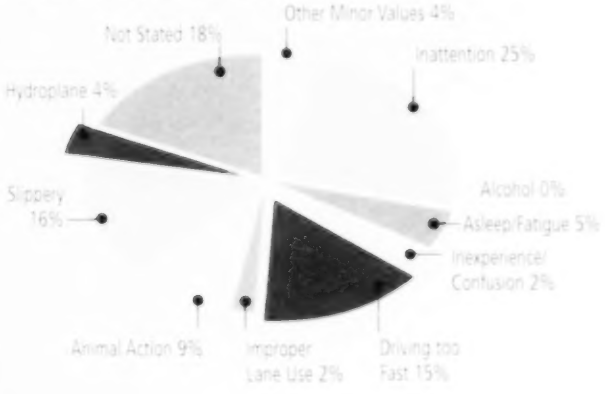
1 Year Total 2003–2004



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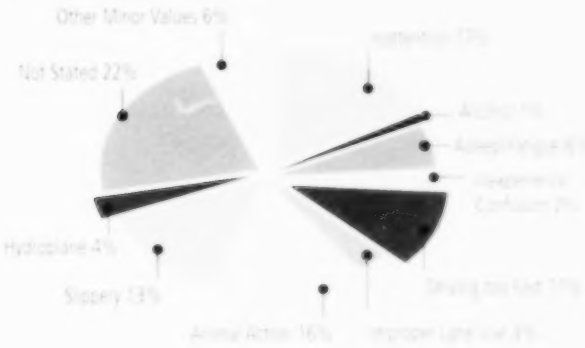
6 Year Total **1998–2004**



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Cash Flow Diagram

Toll Revenue
Project Account
Capital Reserve Account
Debt Service Reserve Account
Pay Highway 104 Corp., Ongoing Administration
Pay Operations & Maintenance Costs
Pay Senior Debt Service
MMRF
Pay Major Maintenance Costs
Pay Excess (if any) to Province Once Sub Debt is Paid

Junior Debt Service expenses have been omitted for clarity.

Auditor's Report

To the Shareholder of Highway 104
Western Alignment Corporation

We have audited the balance sheet of Highway 104 Western Alignment Corporation as at March 31, 2004, and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Nova Scotia
May 18, 2004

Highway 104 Western Alignment Corporation

Statements of Earnings and Deficit

Year Ended March 31

	Budget 2004	Actual 2004	2003
Revenue			
Facility revenue	$ 14,294,860	$ 14,717,403	$ 13,864,445
Interest income	390,000	757,746	409,148
	14,684,860	15,475,149	14,273,593
Expenses			
Bondholder representative fees	164,000	103,536	100,544
Trustee fees	30,450	30,872	39,387
Salaries and benefits	154,160	118,190	166,887
Office	53,125	48,589	53,211
General and administrative	221,800	158,980	122,676
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	60,172	31,686
Routine maintenance	880,600	850,849	709,594
Major maintenance	445,225	483,251	485,452
Facility operations	1,791,782	1,860,350	1,674,587
Transponders	53,700	66,694	71,558
	3,904,842	3,841,483	3,515,582
Earnings before other items	10,780,018	11,633,666	10,758,011
Other items			
Government assistance amortization (Note 2)	1,204,817	1,204,817	1,147,444
Amortization and depreciation	(2,795,240)	(2,729,806)	(2,673,954)
Interest on long term debt	(8,408,201)	(8,443,686)	(8,376,608)
Net earnings	$ 781,394	$ 1,664,991	$ 854,893
Deficit, beginning of year		$ (13,573,769)	$(10,976,268)
Net earnings		1,664,991	854,893
Transfer to reserve for restricted assets (Note 9)		(3,824,241)	(3,452,394)
Deficit, end of year		$ (15,733,019)	$(13,573,769)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31

	2004	2003
Assets		
Cash and cash equivalents	$ 650,560	$ 498,108
Inventory	12,530	7,630
Prepaids (Note 3)	331,965	329,283
Receivables (Note 4)	72,180	80,907
Restricted assets (Note 5)	20,045,521	16,221,280
Facility (Note 6)	109,779,225	112,509,031
Deferred financing fees (Note 2)	535,965	571,399
	$131,427,946	$130,217,638
Liabilities		
Payables and accruals	$ 622,004	$ 664,495
Deferred revenue	618,398	581,874
Long term debt (Note 7)	82,852,815	82,096,714
Payable to the Province of Nova Scotia (Note 8)	250,000	250,000
Deferred government assistance (Note 2)	48,711,307	49,916,124
	133,054,524	133,509,207
Shareholder's Deficiency		
Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	1	1
Reserve for restricted assets (Note 9)	14,106,440	10,282,199
Deficit	(15,733,019)	(13,573,769)
	(1,626,578)	(3,291,569)
	$131,427,946	$130,217,638

Commitments and contractual obligations (Note 12)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Statement of Cash Flows

Year Ended March 31

	2004	2003
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	$ 1,664,991	$ 854,893
Government assistance amortization	(1,204,817)	(1,147,444)
Capitalized interest on bonds (Note 7)	1,652,655	1,495,320
Amortization of deferred financing fees	35,434	35,434
Amortization and depreciation	2,729,806	2,673,954
	4,878,069	3,912,157
Change in non-cash operating working capital (Note 11)	(4,822)	406,781
	4,873,247	4,318,938
Financing		
Principal repayment on bonds	(896,554)	(806,236)
Investing		
Increase in restricted assets	(3,824,241)	(3,452,394)
Construction of facility	-	(44,940)
	(3,824,241)	(3,497,334)
Net increase in cash and cash equivalents	152,452	15,368
Cash and cash equivalents, beginning of year	498,108	482,740
Cash and cash equivalents, end of year	$ 650,560	$ 498,108

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation Notes to the Financial Statements *March 31, 2004*

1. Nature of operations

The Corporation has been established for the purpose of financing, designing, constructing, operating and maintaining the Facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia.

2. Summary of significant accounting policies

Pre-operating and operating periods — The pre-operating period was the twenty month construction period commencing April 1, 1996 until the date of acceptance in November 1997. Operations began December 1, 1997.

Facility — The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the Facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized commencing at the start of the operating period until March 31, 2026 using the sinking fund method with an annual compounding rate of 5%.

Also included in the Facility are computer equipment costs of $44,940. These costs are being amortized over three years under the straight line method.

Revenue recognition — The Corporation recognizes revenue at the time a vehicle utilizes the highway.

Deferred costs - financing fees — Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

Deferred government assistance — Government assistance provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less with the exception of restricted cash balances which are included in restricted assets. Bank borrowings are considered to be financing activities.

Use of estimates — In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

3. Prepaids

	2004	2003
Operating expenses	$ 36,235	$ 44,040
Advance to operator	295,730	285,243
	$ 331,965	$ 329,283

4. Receivables

	2004	2003
Harmonized Sales Tax	$ 45,372	$ 52,827
Other	26,808	28,080
	$ 72,180	$ 80,907

5. Restricted assets

	Cash	Investments	2004 Total	2003 Total
Senior debt service reserve account	$ 777	$ 5,711,444	$ 5,712,221	$ 5,787,904
Capital reserve account	509	10,574,792	10,575,301	7,401,878
Major maintenance reserve account	1,198	3,756,801	3,757,999	3,031,498
	$ 2,484	$ 20,043,037	$ 20,045,521	$16,221,280

Investments are recorded at cost, have a weighted average term of 10.14 (2003 – 14.79) months to maturity and a weighted average interest rate of 3.26% (2003 – 3.69%). The market value of the investments approximates the carrying value.

The following restricted accounts have been established in accordance to trust indenture agreements between the Corporation and the senior and junior bondholders and an Omnibus Agreement between the Corporation and the Province of Nova Scotia:

(i) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank accounts of the Corporation.

(ii) The senior debt reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.

(iii) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

6. Facility

	Cost	Accumulated Depreciation	2004 Net Book Total	2003 Net Book Total
Facility	$ 124,667,559	$ 14,888,334	$ 109,779,225	$ 112,509,031

7. Long term debt

	2004	2003
Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006 and then 80 equal blended quarterly payments of interest and principal of $2,251,191. Interest from the date of issue has been capitalized as part of the principal and continued to be fully capitalized until June 30, 1998. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	$ 73,038,578	$ 71,385,924
Junior toll revenue bonds bearing interest at 10.76%, maturing March 31, 2011, repayable in interest payments only from June 30, 1998 until March 31, 2001 and then 40 equal blended quarterly payments of principal and interest of $503,395. Interest from the date of issue has been capitalized as part of the principal and continued to be capitalized until June 30, 1998. As security, the Corporation has assigned a second charge security interest in all security pledged to senior toll revenue bondholders.	9,814,236	10,710,790
	$ 82,852,815	$ 82,096,714

Minimum principal repayments required are as follows:

2005	$ 996,970
2006	1,108,652
2007	2,498,137
2008	2,769,342
2009	3,071,719

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is $104,827,000 (2003 - $100,579,000) and is determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

8. Payable to the Province of Nova Scotia

On the date of acceptance, the Province advanced $250,000 to the Corporation to facilitate the Provincial subsidy. Under the First Amendment to the Omnibus Agreement, the Province reduced the tolls for transponder users and created a Provincial subsidy payable to the Corporation to offset the reduction. The advance is to be repaid to the Province on the earlier of the date when the toll rates are reinstated to the original rates as laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

9. Reserve for restricted assets

The capital reserve account is to be funded from excess funds in the Project Bank Account. In addition, any interest earned on restricted assets forms part of the reserve account.

	2004	2003
Reserve for restricted assets, beginning of year	$ 10,282,199	$6,829,805
Transfers from project account	11,255,000	10,920,000
Interest income	739,970	395,337
Long term debt payments, including interest	(7,652,151)	(7,652,141)
Major maintenance payments, including HST to be recovered	(518,578)	(210,802)
	3,824,241	3,452,394
Reserve for restricted assets, end of year	$ 14,106,440	$10,282,199

10. Financial instruments

The Corporation's financial instruments consist of prepaids, receivables, restricted assets, payables and accruals, amount payable to the Province of Nova Scotia, deferred revenue and long term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Corporation estimates the fair value of its financial instruments to approximate their carrying values with the exception of long term debt as outlined in Note 7 to the financial statements.

11. Supplemental cash flow information

	2004	2003
Change in non-cash operating working capital		
Inventory	$ (4,900)	$ 14,190
Prepaids	(2,682)	35,325
Receivables	8,727	121,043
Payables and accruals	(42,491)	179,530
Deferred revenue	36,524	56,693
	$ (4,822)	$ 406,781
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	$ 650,560	$ 498,108
Interest paid	$ 6,755,597	$ 6,845,904

12. Commitments and contractual obligations

The Corporation has entered into the following agreements to finance, design, construct, operate and maintain the Highway 104 Western Alignment:

Omnibus Agreement — Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfill its obligations to the Province.

Under this agreement, the Province of Nova Scotia retains ownership of the Facility, however, the Corporation is granted the right to operate and collect tolls for a thirty year period, at which time this right will revert back to the Province.

The Province contributed $55,000,000 to the project.

Operating Agreement — Agreement dated May 22, 1996 between the Corporation and Atlantic Highways Management Corporation (the Operator) whereby the Operator is required to operate the Facility which includes the toll collection system, toll plaza and the administration building.

Operator compensation is based on the annual operating budget plus a variable fee, subject to adjustment under certain conditions, equal to 10% of the total annual budget.

Major Maintenance Reserve Fund Agreement — Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement requires the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Reserve Account. The maximum annual fee is $50,000. The agreement with the independent engineer was renewed for a one year term in November 2003.

The estimated deposits required to fund anticipated major maintenance for the next five years are as follows:

2005	$ 700,000
2006	700,000
2007	700,000
2008	700,000
2009	825,000

Annual Roadway Maintenance Agreement — The five year agreement, renewed March 3, 2004, between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services for an annual fee of $830,600 and subsequently adjusted thereafter for inflation.

During the year, the Corporation incurred management fees of $22,539 (2003 - $35,000) from the Province of Nova Scotia.

Other — The Corporation had also entered into various operating lease agreements for equipment and office space. The minimum lease payments for the next two years are as follows:

2005	$ 27,348
2006	18,232

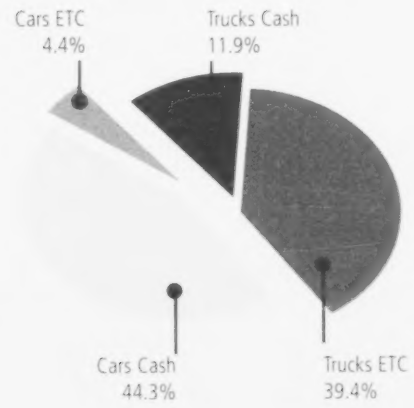
13. Comparative figures

Certain of the prior year figures have been reclassified to conform with the financial statements presentation adopted for the current year.

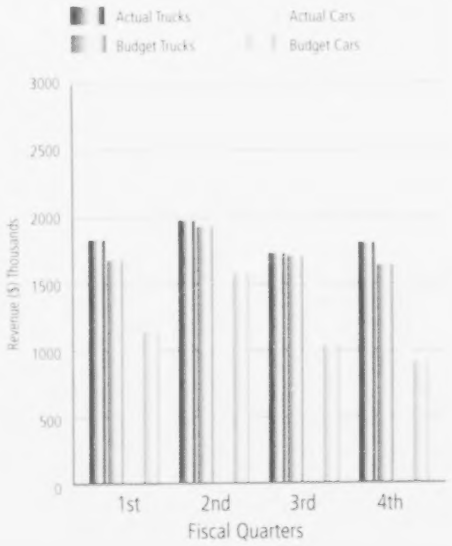
Financing

- Construction cost: $112 .9 million
- Provincial contribution: $27.5 million
- Federal contribution: $27.5 million
- $5.5 million in subordinated notes invested from the provincial pension fund
- $60.9 million provided by the sale of bonds to private investors underwritten by Newcourt Credit Group of Toronto
- Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover the $830,600 for annual maintenance provided by the Nova Scotia Department of Transportation and Public Works in fiscal 2003–04; and contribute to long-term maintenance.
- The money borrowed from the private sector by the Highway 104 Western Alignment Corporation through Newcourt Credit Group is borrowed on the security of tolls not on the financial guarantees of the province.
- $4.00 per car; $3.00 per axle for trucks over five tonnes, $5.25 per recreational vehicle.
- $41 to buy a transponder, an electronic device mounted on a vehicle to automatically deduct tolls from a pre-paid computerized account.

Cash Toll and ETC Revenue
April 1, 2003 to March 31, 2004 (Audited)



Revenue Versus Day 1 Projections
For the Fiscal Year Ending March 31, 2004 (Audited)



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